

**HERITAGE SCHOOLS, INC.**

**FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION, AND  
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**DECEMBER 31, 2005 AND 2004**

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# OSBORNE, ROBBINS & BUHLER, P.L.L.C. Certified Public Accountants

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## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Trustees  
Heritage Schools, Inc.

We have audited the accompanying statements of financial position of Heritage Schools, Inc., a nonprofit organization, (the School) as of December 31, 2005 and 2004 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heritage Schools, Inc. as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2006 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Heritage Schools, Inc. taken as a whole. The accompanying schedule of functional expenses on page 14 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Osborne, Robbins, + Buhler, PLLC*

June 22, 2006

# Heritage Schools, Inc.

## STATEMENTS OF FINANCIAL POSITION

	December 31,		
		2005	2004
	ASSETS		
Current assets			
Cash and cash equivalents		\$ 1,318,153	\$ 81,997
Accounts receivable (Notes B and E)		2,873,566	2,421,354
Other current assets		<u>29,002</u>	<u>28,749</u>
Total current assets		4,220,721	2,532,100
Property and equipment, net (Notes C, E, and F)		8,647,686	8,970,791
Other assets (Note D)		<u>2,304,733</u>	<u>2,079,660</u>
Total assets		<u><u>\$ 15,173,140</u></u>	<u><u>\$ 13,582,551</u></u>
	LIABILITIES AND NET ASSETS		
Current liabilities			
Line of credit (Note E)		\$ -	\$ 294,057
Accounts payable		931,581	825,358
Accrued liabilities		571,782	556,450
Current maturities of long-term obligations (Note F)		<u>473,059</u>	<u>439,096</u>
Total current liabilities		1,976,422	2,114,961
Long-term obligations, less current maturities (Note F)		<u>4,946,344</u>	<u>5,157,857</u>
Total liabilities		<u>6,922,766</u>	<u>7,272,818</u>
Commitments and contingencies (Notes E, F and H)		-	-
Net assets			
Unrestricted		8,236,671	6,300,130
Temporarily restricted		<u>13,703</u>	<u>9,603</u>
		<u>8,250,374</u>	<u>6,309,733</u>
Total liabilities and net assets		<u><u>\$ 15,173,140</u></u>	<u><u>\$ 13,582,551</u></u>

The accompanying notes are an integral part of these financial statements

# Heritage Schools, Inc.

## STATEMENTS OF ACTIVITIES

Years ended December 31,

	<u>2005</u>	<u>2004</u>
<b>UNRESTRICTED NET ASSETS</b>		
Revenues and support		
Tuition and fees	\$ 15,935,663	\$ 14,034,941
Other revenue	<u>399,194</u>	<u>481,354</u>
	16,334,857	14,516,295
Less provision for uncollectible revenues and support	<u>(189,745)</u>	<u>(170,773)</u>
Total unrestricted revenues and support	<u>16,145,112</u>	<u>14,345,522</u>
Expenses		
Program expenses		
Residential	4,783,680	4,858,848
Academics	1,619,268	1,635,991
Therapy	1,744,828	1,815,093
Food services	1,180,629	1,198,050
Medical services	1,804,089	1,537,622
General services	<u>1,541,968</u>	<u>1,590,656</u>
Total program services	<u>12,674,462</u>	<u>12,636,260</u>
Supporting expenses		
Administration	1,404,497	1,436,323
Fund raising and marketing	<u>129,612</u>	<u>116,673</u>
Total supporting services	<u>1,534,109</u>	<u>1,552,996</u>
Total expenses	<u>14,208,571</u>	<u>14,189,256</u>
Increase in unrestricted net assets	<u>1,936,541</u>	<u>156,266</u>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	<u>4,100</u>	<u>9,603</u>
Increase in temporarily restricted net assets	<u>4,100</u>	<u>9,603</u>
Increase in net assets	1,940,641	165,869
Net assets at beginning of year	<u>6,309,733</u>	<u>6,143,864</u>
Net assets at end of year	<u>\$ 8,250,374</u>	<u>\$ 6,309,733</u>

The accompanying notes are an integral part of these financial statements

# Heritage Schools, Inc.

## STATEMENTS OF CASH FLOWS

Years ended December 31,

	2005	2004
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 1,940,641	\$ 165,869
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	439,488	411,215
Provision for uncollectible revenues and support	189,745	170,773
Increase in cash surrender value in excess of premiums paid	(75,310)	(142,913)
Amortization of bond issuance costs	18,343	17,723
Loss on sale or disposal of property and equipment	7,870	127,667
Severance and other nonrecurring benefits	319,728	-
Changes in operating assets and liabilities		
Accounts receivable	(641,957)	(352,864)
Other current assets	(253)	(27,003)
Accounts payable	106,223	116,375
Accrued liabilities	15,332	(50,229)
Net cash provided by operating activities	<u>2,319,850</u>	<u>436,613</u>
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	(143,014)	(685,157)
Increase in cash surrender value of life insurance from premiums paid, net of withdrawals of cash surrender value	(214,380)	(332,548)
Proceeds from sale of property and equipment	<u>18,761</u>	<u>19,403</u>
Net cash used in investing activities	<u>(338,633)</u>	<u>(998,302)</u>
<b>Cash flows from financing activities</b>		
Repayment of long-term obligations	(451,004)	(417,032)
Net increase (decrease) in line of credit	(294,057)	294,057
Proceeds from long-term obligation	<u>-</u>	<u>15,184</u>
Net cash used in financing activities	<u>(745,061)</u>	<u>(107,791)</u>
Net increase (decrease) in cash and cash equivalents	1,236,156	(669,480)
Cash and cash equivalents at beginning of year	<u>81,997</u>	<u>751,477</u>
Cash and cash equivalents at end of year	<u>\$ 1,318,153</u>	<u>\$ 81,997</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for interest	\$ 241,091	\$ 182,489

The accompanying notes are an integral part of these financial statements

**Heritage Schools, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005 and 2004**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

**History and organization activity**

Heritage Schools, Inc. (the School) is a not-for-profit corporation organized under the direction of its board of trustees. The School is a subacute psychiatric treatment facility providing specialized services and residential care for troubled adolescents ages twelve to eighteen. Contracts for the students' care are entered into with various state and other governmental agencies.

**Financial statement presentation**

The School follows Statement of Financial Accounting Standards (SFAS) No. 117, *"Financial Statements of Not-for-Profit Organizations,"* and SFAS No. 116 *"Accounting for Contributions Received and Contributions Made."* Under SFAS No. 117, the School is required to report information regarding its financial position and activities according to three classes of net assets: Unrestricted Net Assets, Temporarily Restricted Net Assets, and Permanently Restricted Net Assets.

**Cash Equivalents**

Cash equivalents are highly liquid investments with original or remaining maturities of three months or less as of the dates of purchase.

**Property and equipment**

The School's property and equipment are recorded at cost, or fair value when contributed for contributed items, less accumulated depreciation. Assets with estimated lives over one year and cost over \$500 are capitalized. Depreciation is computed using the straight-line method over the useful lives of three to forty years for the related assets.

**Life insurance**

The School maintains whole life insurance policies on a current officer and on a former officer. These policies are included in other assets and are recorded at their cash surrender value. At December 31, 2005, the School also has policies with split dollar arrangements for the benefit of three other officers. The split dollar policies are included in other assets and are recorded at the lesser of their cash surrender value or the receivable for cumulative premiums paid.

**Net assets and contributions**

Balances and transactions are presented according to the existence or absence of donor-imposed restrictions. This has been accomplished by recording transactions into the following classes of net assets.

*Unrestricted net assets* – Net assets resulting from revenues and support not subject to donor-imposed restrictions.

Heritage Schools, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

*Temporarily restricted net assets* – Net assets resulting from support whose use by the School is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the School pursuant to those donor-imposed restrictions. At December 31, 2005 and 2004, temporarily restricted net assets include cash and cash equivalents in the amount of \$13,703 restricted for use of scholarships and the building of a new performing arts auditorium.

*Permanently restricted net assets* – Net assets that generally represent contributions whose use by the School is permanently limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by actions of the School. At December 31, 2005 and 2004, there were no permanently restricted net assets.

Contributions are recognized when the grantor or donor makes a promise to give to the School that is, in substance, unconditional. Contributions are reported as increases in temporarily or permanently restricted net assets when restrictions are imposed by grantors or donors. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The School reclassifies temporarily restricted net assets to unrestricted net assets at that time. Donations of property and equipment during 2005 and 2004 were not significant.

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. There were no such contributions of donated services during 2005 or 2004.

Revenue recognition

Revenue is recognized monthly as services are performed. The School follows standard credit and collection practices. Management reviews the collectibility of accounts receivable and provides for estimated uncollectible accounts receivable through an allowance for doubtful accounts. When the School has exhausted its collection efforts, the uncollectible accounts are charged off against the allowance. Accounts receivable are stated at the amount management expects to collect from outstanding balances.



Heritage Schools, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income taxes

The School has received a determination letter from the Internal Revenue Service, exempting the School from taxation under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the School is not subject to federal or state income taxes. There was no unrelated business income for the years ended December 31, 2005 or 2004.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods, including related disclosures. Accordingly, actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for doubtful accounts and the estimation of useful lives of property and equipment.

Concentrations

At December 31, 2005 and 2004, substantially all of the School's cash and cash equivalents are maintained in accounts of one financial institution. These accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000.

The School's operations are concentrated in providing specialized subacute psychiatric treatment services and residential care for troubled adolescents ages twelve to eighteen. The School's contracts for such services are concentrated with school districts, and county and state governmental agencies principally located in the states of California, Alaska, Utah, and Illinois.

Reclassifications

Certain accounts in the 2004 financial statements have been reclassified for comparative purposes to conform with the presentation in the 2005 financial statements.

NOTE B - ACCOUNTS RECEIVABLE

Accounts receivable are comprised of the following:

	<u>2005</u>	<u>2004</u>
Tuition and fees	\$ 3,147,791	\$ 2,601,471
Other	25,775	19,883
	<u>3,173,566</u>	<u>2,621,354</u>
Less allowance for doubtful accounts	300,000	200,000
	<u>\$ 2,873,566</u>	<u>\$ 2,421,354</u>

Heritage Schools, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2005	2004
Land	\$ 235,418	\$ 235,418
Buildings and improvements	8,915,513	8,855,170
Land improvements	1,467,493	1,470,145
Furniture and fixtures	418,305	410,807
Vehicles	505,767	502,570
Equipment	297,098	280,469
Horses	13,765	13,765
	11,853,359	11,768,344
Less accumulated depreciation	3,205,673	2,797,553
	<u>\$ 8,647,686</u>	<u>\$ 8,970,791</u>

Depreciation expense totaled \$439,488 and \$411,215 for the years ended December 31, 2005 and 2004, respectively.

NOTE D – OTHER ASSETS

Other assets consist of the following:

	2005	2004
Cash surrender value of life insurance on officers	\$ 2,082,013	\$ 1,838,598
Bond issuance costs, net of amortization	222,720	241,062
	<u>\$ 2,304,733</u>	<u>\$ 2,079,660</u>

Bond issuance costs are being amortized over 15 years using the level yield method.

NOTE E – LINE OF CREDIT

The School has a line of credit with a financial institution in the amount of \$650,000. The line of credit bears interest at one percent over prime (8.25% at December 31, 2005) and is collateralized by all accounts receivable, inventory, chattel paper, general intangibles, equipment, furniture and fixtures, and certain real property. At December 31, 2005, the balance on the line of credit was \$0 (\$294,057 at December 31, 2004).

The line of credit contains certain covenants requiring the School to maintain certain financial ratios. The School was in compliance with these covenants for the year ending December 31, 2005.

Heritage Schools, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004

**NOTE F – LONG-TERM OBLIGATIONS**

Long-term obligations consist of the following:

	<u>2005</u>	<u>2004</u>
Bonds payable	\$ 4,470,000	\$ 4,795,000
Vehicle loans	142,695	215,053
Term loan	540,100	586,900
Severance obligation	<u>266,608</u>	<u>-</u>
	5,419,403	5,596,953
Less current maturities	<u>473,059</u>	<u>439,096</u>
	<u>\$ 4,946,344</u>	<u>\$ 5,157,857</u>

During 2000, Utah County, Utah issued bonds on behalf of the School. The bonds consisted of tax-exempt variable rate revenue bonds totaling \$5,820,000 and taxable variable rate revenue bonds totaling \$100,000. The taxable variable rate revenue bonds were retired in August of 2001. The bonds were to provide permanent financing for all or a portion of the costs of a residential treatment school in Provo, Utah, to retire certain outstanding obligations of the School, and to pay certain costs of issuing the bonds. The bonds mature December 2015. The School makes monthly principal installments into a sinking fund and annual bond retirements are made each December from the sinking fund. Monthly principal installments increase from \$21,250 in January 2001 to \$47,083 in January 2015. The bonds bear interest at a variable rate (3.60% at December 31, 2005), determined on a weekly basis depending on market conditions. Interest is paid on a monthly basis. At the election of the School, the variable interest rate may be converted to a fixed rate. The bonds are secured by all revenues as defined under the bond indenture.

The vehicle loans principally bear interest at 5.34%, are payable in aggregate monthly payments of \$6,427 including interest, and mature on dates through September 2008. The loans are collateralized by vehicles. The term loan bears interest at prime plus 1% (8.25% at December 31, 2005), is payable in monthly installments of \$3,900, plus interest, with the balance due in June 2012. The term loan is collateralized by a building. These loans contain certain covenants requiring the School to maintain certain financial ratios. The School was compliance with these covenants for the year ending December 31, 2005.

During 2005, the School entered into a severance arrangement with a former employee. Under the terms of the arrangement, the School agreed to pay monthly installments commencing June 1, 2005 until the later of May 1, 2015 or the date of the employee's death. The School has recorded this obligation and related expense at its present value using a 5% discount rate based on the Commissioners 2001 Standard Ordinary Mortality Table. Currently, the School maintains a life insurance policy on the life of the former employee with a face amount that exceeds the current balance of the obligation.

Heritage Schools, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004

**NOTE F – LONG-TERM OBLIGATIONS - CONTINUED**

The following is a schedule of debt maturities at December 31, 2005:

Year ending December 31,	
2006	\$ 473,059
2007	491,870
2008	446,588
2009	464,428
2010	490,074
Thereafter	<u>3,053,384</u>
	<u>\$ 5,419,403</u>

Subsequent to December 31, 2005, the School paid off the term loan (which had a balance of \$540,100 at December 31, 2005) and paid off the vehicle loans (which had an aggregate balance of \$142,695 at December 31, 2005).

**NOTE G – CONDITIONAL PROMISES TO GIVE**

The School has received promises to give contributions to the School in the following aggregate amounts as of December 31, 2005 and 2004, subject to the conditions described:

2005		2004		Purpose of the Promise and Nature of Conditions
Number of donors	Aggregate Amount Promised	Number of donors	Aggregate Amount Promised	
2	\$ 350,000	2	\$ 350,000	The School is designated as a beneficiary of charitable remainder trusts for the general unrestricted support of the School. The designation of beneficiary is subject to revocation by the trustor.
12	281,000	10	220,000	The promises are for the purpose of supporting the construction of a performing arts theatre. The promises are conditioned upon the School obtaining the appropriate permits and plan approvals from the pertinent local governmental agencies.
	<u>\$ 631,000</u>		<u>\$ 570,000</u>	

Heritage Schools, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004

**NOTE H – COMMITMENTS AND CONTINGENCIES**

Operating leases

The School leases certain office and operating equipment under noncancelable operating leases. The following is a schedule of future minimum lease commitments at December 31, 2005:

Year ending December 31,	
2006	\$ 78,212
2007	78,212
2008	52,141
Thereafter	-
	<u>\$ 208,565</u>

Total lease and rental expense for the years ended December 31, 2005 and 2004 was \$106,559 and \$95,731, respectively.

Litigation

There is an action filed in the Fourth Judicial District Court in Utah County, Utah, that claims that a client was assaulted by another client in 1999 while in the School's custody. The action seeks damages in an amount to be determined at trial. At the time of the alleged incident, the School maintained liability insurance in the amount of one million dollars. The insurance company is presently under the control of the New York State Insurance Department, who was appointed as its rehabilitator in 2001. The action is scheduled to go to trial in October, 2006. To date, the insurance company has paid the costs of defending the School. The insurance company and management intend to vigorously defend the School against the claim, but will seek to settle the matter prior to trial. Management believes that the claim should not result in liability to the School in excess of the limits of its liability insurance. Accordingly, no estimated loss has been accrued in the accompanying financial statements. Nevertheless, due to uncertainties in the litigation and settlement process, it is possible that management's view of the outcome of this matter could change materially in the near term.

**NOTE I – EMPLOYEE RETIREMENT PLAN**

The School provides retirement benefits through a 401(k) profit sharing plan (the Plan). All employees at least 21 years of age, who have completed one year of service with the School, are eligible to participate in the Plan. Under the Plan, employees are allowed to make contributions up to the maximum amount allowed by law. The School matches 100 percent of the employee's contribution up to four percent of their annual compensation. Contributions are immediately 100 percent vested. The School's contribution to the Plan totaled \$128,102 and \$134,408 during 2005 and 2004, respectively.

# Heritage Schools, Inc.

## Schedule of Functional Expenses

Year ended December 31, 2005 with summarized financial information for the year ended December 31, 2004

	Program Services					
	Residential	Academics	Therapy	Food Services	Medical Services	General Services
Salaries and Wages	\$ 3,231,689	\$ 1,109,086	\$ 1,202,377	\$ 362,888	\$ 852,318	\$ 590,081
Employee Benefits	722,585	171,003	162,411	83,835	98,151	125,930
Payroll Taxes	250,248	91,508	82,073	28,404	64,397	46,163
Severance and other nonrecurring benefits	-	-	46,274	-	273,454	-
Total personnel costs	4,204,522	1,371,597	1,493,135	475,127	1,288,320	762,174
Professional fees	-	29,093	32,853	-	362,133	82,564
Food	-	-	-	565,649	-	70
Depreciation	176,446	57,560	60,719	19,939	42,590	31,985
Supplies	23,699	26,205	29,849	77,724	34,824	183,039
Interest	104,158	33,978	35,843	11,770	25,141	18,881
Property and Liability Insurance	91,132	29,729	31,361	10,298	21,997	16,520
Repairs and Maintenance	-	35,042	172	9,116	-	175,919
Utilities	-	-	-	-	-	174,522
Programs	-	5,959	49,240	-	23,413	31,143
Rental Expense	86,177	7,353	2,325	424	-	10,280
Miscellaneous and Other	4,798	12,535	-	9,229	150	15,796
Telephone	46,035	-	-	-	-	33,962
Conferences and Education	25,197	9,186	7,926	996	4,758	1,018
Travel and Meals	150	-	318	-	-	3,522
Postage	18,206	-	-	-	-	-
Loss on Sale or Disposal of Property and Equipment	3,160	1,031	1,087	357	763	573
Total expenses	<u>\$ 4,783,680</u>	<u>\$ 1,619,268</u>	<u>\$ 1,744,828</u>	<u>\$ 1,180,629</u>	<u>\$ 1,804,089</u>	<u>\$ 1,541,968</u>

Total Program Services	Supporting Services		Total Supporting Services	Total Program and Supporting Services	
	Administration	Fund Raising and Marketing		2005	2004
\$ 7,348,439	\$ 886,682	\$ 47,810	\$ 934,492	\$ 8,282,931	\$ 8,443,791
1,363,915	172,329	8,393	180,722	1,544,637	1,560,028
562,793	80,078	2,089	82,167	644,960	652,303
319,728	-	-	-	319,728	-
9,594,875	1,139,089	58,292	1,197,381	10,792,256	10,656,122
506,643	58,334	51,984	110,318	616,961	592,879
565,719	-	-	-	565,719	538,585
389,239	47,803	2,446	50,249	439,488	411,215
375,340	12,334	-	12,334	387,674	449,426
229,771	28,218	1,445	29,663	259,434	211,552
201,037	24,690	1,264	25,954	226,991	200,211
220,249	867	-	867	221,116	247,094
174,522	13,630	-	13,630	188,152	175,474
109,755	-	-	-	109,755	119,353
106,559	-	-	-	106,559	95,731
42,508	59,769	2,592	62,361	104,869	114,387
79,997	-	-	-	79,997	106,958
49,081	9,444	64	9,508	58,589	58,607
3,990	9,463	11,482	20,945	24,935	49,574
18,206	-	-	-	18,206	34,421
6,971	856	43	899	7,870	127,667
<u>\$ 12,674,462</u>	<u>\$ 1,404,497</u>	<u>\$ 129,612</u>	<u>\$ 1,534,109</u>	<u>\$ 14,208,571</u>	<u>\$ 14,189,256</u>

**REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND COMPLIANCE**



**OSBORNE, ROBBINS & BUHLER, P.L.L.C. Certified Public Accountants**

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees

Heritage Schools, Inc.

We have audited the financial statements of Heritage Schools, Inc., a nonprofit organization (the School), as of and for the year ended December 31, 2005, and have issued our report thereon dated June 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School in a separate letter dated June 22, 2006.

This report is intended solely for the information and use of the Board of Trustees, management, and contracting agencies of the School, and is not intended to be and should not be used by anyone other than these specified parties.

*Osborne, Robbins, + Buhler PLLC*

June 22, 2006